13 February 2025

PFA Contribution to the European Commission's public Consultation on the "Future of the European Automotive Industry"

A Call for Immediate and Decisive Action

The **PFA urges the European Commission to take immediate emergency measures**. Given the **deep crisis affecting the European automotive industry**, it is crucial to make **swift and concrete decisions**, based on **in-depth analyses and recommendations** such as those outlined in the **Draghi Report** and by the **Jacques Delors Institute** on **"Trade and Industrial Policy Options."**

Extraordinary challenges demand extraordinary measures. Urgent action is needed on the following key issues:

- **As a prerequisite to all other measures to take immediate actions for CAFE 2025 compliance** and avoid the absurd situation where manufacturers, despite having invested massively in electrification together with suppliers, are still forced to pay fines - a scenario that would only deepen the crisis in this sector and hinder the necessary investments to be pursued to achieve the 2030-2035 targets.

- Reduce the lack of competitiveness in particular by reducing energy price and supporting investment **through a European investment plan inspired by the US IRA (CAPEX & OPEX) especially for the investment already committed like gigafactory.** Specific attention has to be paid to SMEs **with a European Guaranty fund for their loans.**

- Establish a more streamlined and predictable regulatory framework **with batched implementation schedules that align with the development and production cycles of the automotive industry.** Focus on future products, with a 10-year phase-out for older models. Conduct impact and consistency assessments **of new legal acts before their adoption**, in cooperation with the industry.

- **Ensure fair global competition**. Action is needed to safeguard the industrial network, maintaining and developing Europe's industrial sovereignty and jobs. It is therefore crucial to define a European strategy, assessing all possible measures to favor significant local value-added production, especially for key technologies while maintaining an open competition.

Context and Challenges

The European automotive industry is undergoing a profound transformation, facing major challenges related to competitiveness, technological transitions, and industrial sovereignty. These issues have been clearly highlighted in the Mario Draghi report, which emphasizes that the automotive sector is a prime example of the **"lack of EU planning, applying a climate policy without an industrial policy"**. This report lays out an ambitious and structured roadmap and recommendations to strengthen the competitiveness of the entire European industrial ecosystem.

It is now imperative that these recommendations be translated into concrete decisions and deep structural reforms, ensuring a coherent and balanced approach that **aligns clean transition and climate ambition with European industrial sovereignty and capability.**

It is essential to acknowledge that the strategy adopted so far—primarily based on regulatory objectives without fully considering the intense global competition in new technologies—is not sufficient to ensure a sustainable development of related industrial value chains in Europe. A more integrated approach, taking into account industrial and competition realities, is necessary to prevent a structural decline of the European automotive industry compared to its main global competitors.

The Strategic Dialogue launched by the President of the European Commission is a decisive opportunity to initiate essential reforms and to structure a coordinated and effective response to these challenges. In doing so, **the regulatory framework should aim to promote innovation, foster competitiveness, and provide clarity and predictability** while ensuring a framework that **supports the automotive sector in a fair, competitive, and technologically open manner.**

In this context, the French automotive sector, represented by PFA (Plateforme de la Filière Automobile), wishes to contribute actively to this consultation by highlighting the following strategic concerns and priority recommendations. This contribution is in line with the contributions of other national and European organizations representative of the automotive sector.

1. Restoring the Competitiveness of the European Automotive Industry

1.1. Reducing energy costs as a key lever for enhancing the competitiveness of the European automotive industry

One of the **major factors driving the decline in competitiveness** of the European automotive industry is the **excessively high energy costs**, which heavily penalize production and threaten Europe's attractiveness for industrial investments.

According to the **Draghi report**, Europe suffers from a **"structural energy competitiveness deficit compared to the United States and Asia"**, creating a significant disadvantage for

European manufacturers, particularly in the automotive sector, which relies on abundant and affordable energy. This **energy cost differential** weakens companies at every level of the value chain, from car manufacturers to equipment suppliers. To ensure competitive energy cost is particularly critical to **develop battery production in Europe, a key enabler for electrification**.

Consequences:

- **A growing competitiveness gap:** European manufacturers face **energy costs up to two or three times higher** than their American and Asian competitors, significantly increasing production expenses and squeezing profit margins.
- **A risk of deindustrialization:** Investments in new production capacities are increasingly being redirected to regions with lower energy costs, particularly North America, threatening the long-term future of the industry in Europe.
- **Increased pressure on supply chains:** Rising energy costs directly impact the production of **batteries, steel, aluminum, and electronic components**, making it harder to establish a competitive and sovereign automotive industry in Europe.

Recommendations:

- **Reduce energy prices for industrial players** by implementing a **competitive pricing mechanism** aligned with costs seen in the U.S. and Asia.
- **Regulate fluctuations in electricity and gas prices,** ensuring strategic industries have **predictable and affordable access** to low-carbon energy, particularly through better integration of nuclear and renewable sources.
- **Establish a European support framework for energy-intensive industries**, similar to mechanisms in place in the U.S. and China, to prevent the relocation of investments outside Europe.

1.2. A simplified regulatory framework

As explained by ACEA, vehicle manufacturers will have to comply with more than **100 legislative texts by 2030**, covering **safety, emissions, energy, materials, data, and security requirements** for vehicle type approval and development.

The accumulation of these regulations significantly increases vehicle costs for consumers, as it integrates development, homologation, and embedded technology costs, ultimately impacting affordability and market accessibility.

Unfortunately, these regulations do not always form a **coherent framework**. There are numerous cases of **excessive reporting requirements, redundant obligations, unrealistic implementation deadlines, and inconsistencies with international UNECE rules**. This increases **compliance costs** for businesses in Europe at a time when the sector is undergoing a profound transformation.

In many cases, establishing a more streamlined and predictable regulatory environment—as recommended in the Draghi report—can significantly reduce costs and enhance legal certainty. This involves introducing phased implementation schedules aligned with the automotive sector's development and production cycles, while ensuring greater coherence across different legislative acts. By reducing regulatory complexity and administrative burdens, the framework should focus on fewer, clearer, more future-proof, and fit-for-purpose rules, fostering a regulatory landscape that supports industrial competitiveness rather than hindering it.

Recommendations:

To address this challenge, a **three-pillar approach should be implemented:**

1. **Grouping regulatory requirements into "batches":**
    - Within each batch, **all legal acts become mandatory at the same time**, making compliance easier and reducing development and homologation costs.
    - There should be **at least a three-year gap between batches and** from the adoption of final texts to their enforcement (**seven years for heavy-duty vehicles**, due to their longer development and product life cycles).
2. **Regulating the future, not the past:**
    - New regulatory requirements should **apply only to new products and not to existing type approvals** (with a 10-year phase-out period for all production).
3. **Ex-ante consistency principle:**
    - Establish a **"one-stop shop" or task force within the European Commission including representatives from the industry** to conduct **impact and consistency assessments** of new legal acts before their adoption.
    - **Implement existing legislation and assess its impact** particularly on vehicle prices before proposing new laws, considering the already substantial body of regulation. A prime example is the connected vehicle regulatory framework, where new regulations have recently come into force and require assessment.

1.3. A cross-sectoral approach and investment support: a key imperative for Europe's industrial competitiveness

1.3.1. A cross-sectoral approach is essential for technological transitions

The rapid emergence of new technologies, particularly **digitalization and electrification**, requires **stronger coordination across multiple industrial sectors**. However, achieving this synchronization remains highly complex and represents a major barrier to the large-scale adoption of these innovations.

In particular, **investment decision process ensuring consistency between all involved sectors (in capacities and timing) is key to support market development** with these new technologies. Without strong coordination between sectors at European level, market development is quite often hindered by "chicken and egg" questions between sectors for investment decision making.

Several key sectors are involved, including **energy production, storage, and distribution; the battery value chain, from raw material extraction to gigafactories**; **electronics, telecommunications; road and urban infrastructures.**

Recommendations:

- **Define an integrated industrial strategy**: Europe must adopt a **comprehensive approach that aligns key sectors**, including **energy, telecommunications, transport infrastructure, and raw materials**, to ensure a seamless and coordinated technological transition.
- **Accelerate the development of a sovereign battery supply chain**: The EU should strengthen **domestic extraction, refining, and gigafactory capabilities** for strategic battery materials, reducing dependency on external suppliers and enhancing industrial resilience.
- **Invest in circular economy and recycling as a strategic priority:** Circular economy and recycling is of strategic importance there, but it will require time before being fully beneficial**.** However, Europe should invest heavily right now in developing knowledge and industrial processes to prepare future and safeguard sovereignty.
- **Establish cross-sectoral cooperation mechanisms**: To prevent **fragmentation and duplication of national initiatives**, Europe must implement **harmonized investment policies and coordinated funding strategies**, ensuring that industrial efforts across member states are **aligned and mutually reinforcing**.
- **Ensure European leadership in digital automotive technologies:** The future of the European Automotive Industry will also depend on the capacity to be competitive on digital aspects of the vehicle and its industry. To this end, dedicated initiatives to support the Software Defined Vehicle, state of the art chips and the use of Artificial Intelligence in the development will be needed. We support all collaborative initiatives that will enable the European industry to keep in the race with US and Asian competitors through R&D project calls and European coordination.

1.3.2. A European investment plan inspired by the US IRA: a game-changer for industrial acceleration

One of the main factors behind the US and Asia's industrial leadership is their ability to **mobilize massive investment incentives**, ensuring that strategic industries scale up rapidly. The **Inflation Reduction Act (IRA)** in the US has demonstrated that a **well-structured and ambitious investment support framework** can attract capital, accelerate industrial deployment, and strengthen technological leadership.

It is essential to recognize that **investments in key technologies within new value chains require extremely high CAPEX**. From gigafactories today, to hydrogen electrolysis plants in future, the **scale of upfront investments is massive** and presents a significant financial barrier to entry. Moreover, many of these technologies have **long learning curves**, meaning that **operational expenses (OPEX) must also be supported** over time to ensure profitability in a highly competitive global market.

The **IRA addresses this challenge by not only subsidizing CAPEX but also providing indirect long-term support for OPEX**, through **Production Tax Credits (PTCs).** The combination of these measures **helps industries remain competitive until cost reductions through economies of scale are achieved**.

Recommendations:

To compete on equal footing, **Europe must implement a similar investment strategy**, including:

- **Robust investment incentives (CAPEX support)**: Introduce **direct subsidies and investment tax credits** to lower the upfront costs of critical infrastructure, such as battery gigafactories, hydrogen electrolysis plants, and carbon capture facilities. The IRA provides similar support through tax credits for clean energy project investments, reducing capital barriers for new industrial players.
- **Liquidity mechanisms like Direct Pay**, making tax incentives accessible even for companies with low or no tax liabilities, a feature that has been crucial in the IRA for entities like startups and public-sector projects.
- **Long-term operational incentives (OPEX support)**: Implement **Production Tax Credits (PTCs) or equivalent mechanisms** to provide predictable, ongoing financial support per unit of output.
- Enhanced European Guaranty fund facilitating access to credit for SMEs.

This approach is fully aligned with **the Draghi Report on European Competitiveness**, which calls for a **more ambitious and integrated European investment strategy** to ensure the continent's industrial leadership. As Draghi states:
"Europe must act decisively to create an economic and financial environment where high-risk, high-reward investments in key technologies can thrive."

To secure its industrial and technological future, **Europe must embrace a comprehensive and ambitious investment plan**, ensuring that its industries can compete on a global scale.

1.4. Employment and skills challenges in the automotive industry's transition

The automotive sector's transition to electrification and digitalization is disrupting traditional job roles, requiring massive reskilling and upskilling efforts to avoid widespread job losses and skills mismatches. **ACEA and CLEPA both highlight the need for urgent action** to ensure a fair transition and maintain Europe's industrial competitiveness.

Key Challenges:

- **Workforce displacement and skills mismatch**: the decline of **ICE-related jobs** risks affecting thousands of workers across **engine manufacturing, fuel systems, and mechanical components**, requiring proactive support.
- **Need for large-scale reskilling**: the rapid shift to **EVs, and connected vehicles** demands **new expertise**, but existing training programs are **insufficient**. **CLEPA** stresses the need for targeted **training initiatives** to help workers transition into **emerging automotive technologies**.
- **Shortage of specialized talent**: **ACEA warns** that attracting **highly skilled engineers, software developers, and AI specialists** is a growing challenge, as competition from other industries intensifies.
- **Unbalanced transition across the value chain**: while **gigafactories** and new **EV supply chains** create jobs, **traditional suppliers** and **SMEs** face uncertainty, requiring **regional workforce support** to prevent large-scale job losses.

Recommandations

- **Establish the Automotive-Mobility Ecosystem Academy (AMEA)**
  A one-stop-shop for education and training to accelerate workforce transformation, inspired by the Automotive Skills Alliance.
- **Enhance collaboration between industries and stakeholders**
  Create EU-wide platforms for cooperation between industry, training providers, and policymakers to align workforce needs.
- **Launch a Europe-wide labor force analysis**
  A detailed regional study of automotive employment to map skill gaps and ensure a targeted workforce strategy.
- **Promote micro-credentials and learning accounts**
  Standardize EU-wide certifications to speed up reskilling efforts and allow workers to transition efficiently between roles.
- **Develop continuous sectoral skills intelligence**
  Monitor and update emerging job roles and compare global best practices to stay ahead of workforce trends.
- **Simplify access to financial support for upskilling**
  Reduce bureaucratic barriers and ensure EU funding mechanisms prioritize workforce development.

- **Integrate skills training into EU research programs**
  Ensure Horizon Europe and other EU-funded projects systematically include workforce training components to build a skilled labor force.

2. Clean Transition and Decarbonisation

As supported by ACEA and CLEPA, **the automotive transition towards zero-emission mobility must be guided by a market-oriented and demand-driven policy, along with a technology-neutral approach** that ensures performance across the entire life cycle of vehicles. Electrification is the most powerful driver for decarbonization, but **its success depends on the urgent deployment of all necessary enabling conditions**. At the same time, achieving ambitious long-term climate objectives requires leveraging the full spectrum of viable low- and zero-emission technologies for **both new vehicles and the existing fleet**.

Key Principles for a Sustainable Transition:

- **Market-driven and demand-oriented policies :** the automotive industry has **already invested heavily in zero-emission technologies**, but regulatory uncertainty and penalties **undermine its ability to reinvest**. Policies should be **market-oriented** and **stimulate demand**, rather than focusing solely on compliance-driven penalties. **Harmonized purchase and fiscal incentives** are essential for accelerating adoption at the European level.
- **Infrastructure readiness:** to reach decarbonization objectives, it is crucial to **accelerate the deployment of charging and refueling infrastructure**. Additionally, **strengthening the electricity grid** and advancing the **development of digital solutions for smart charging**, such as Vehicle-to-Grid (V2G) and Vehicle-to-Home (V2H), are essential to optimize energy use and enhance system efficiency.
- **Ensuring a positive customer experience with charging**: a specific effort has to be made to **ensure a positive customer experience with charging:** not only charging stations availability, but short queuing, clear and competitive charging costs, easy to pay, seamless usage between EU countries…
- **Life-cycle performance as the right approach towards 2035:** decarbonization policies must focus on **total environmental impact**, not just tailpipe emissions. A **full life-cycle assessment** approach **(LCA)**, considering **vehicle production, energy sources, and recyclability should be the core metric to** ensures that the **most sustainable solutions** are adopted, in a technology neutral approach. This is crucial for **evaluating the carbon footprint of battery production, raw material extraction, and the integration of alternative fuels**.
- **Technology openness and innovation-driven decarbonization:** the regulatory framework must stay open to all low carbon- solutions. It should be noted that some of these solutions can be used by the existing vehicle fleet. For instance, carbon-neutral fuels present a major advantage when designed as drop-in fuels or blended

with conventional fuels, delivering an immediate and large-scale impact on emissions reduction without requiring fleet renewal.

Key priorities

- **Immediate action for CO2 2025 compliance for light-duty**
  Introduce through the use of the urgent procedure in the European Parliament, **an average compliance mechanism for years 2025-2029 for passenger cars**, and/or a phase-in of the objectives of 90% for 2025 and 95% for 2026. Introduce both flexibilities (phase-in and multi-annual average compliance) for vans.

- **Introduce an EU-wide bonus system to support the higher uptake of zero-emission vehicles for passenger cars and light commercial vehicles**, including corporate fleets, using different financial EU and national instruments. A system based on an eco-score, as developed in France, should be considered. Provide guidance and maximum harmonization of fiscal and non-fiscal incentives for corporate fleets.

- **Initiate the review process for Regulation 2023/851, aiming to present a legal proposal as early as possible. The proposal should include:**
  - Modalities and flexibilities for 2030, ensuring a pragmatic and adaptable transition.
  - Options to guarantee a technology-neutral approach in 2035, particularly through an LCA-based performance framework that considers the full range of fuel and powertrain combinations.

- **Ensure regulatory stability for PHEVs and avoid their exclusion**
  The Commission should reconsider the regulatory framework to ensure that Plug-in Hybrid Electric Vehicles (PHEVs) remain a viable technology in the transition towards decarbonization. Specifically, the Commission should maintain a constant utility factor for PHEVs from the scheduled update in 2025 onwards.

- Accelerate the establishment of **enabling conditions for the market uptake of zero-emission trucks and buses**, i.e. dedicated charging and hydrogen refuelling infrastructures for HDVs and measures to address TCO (Total Cost of Ownership) cost parity for ZEVs.

- **Accelerate the deployment of carbon neutral fuels**
  Review REDIII as soon as possible to accelerate decarbonisation of fuels that will contribute to the overall reduction of GHG from the current fleet. Associated to that, provide a clear roadmap towards the **review of the Energy Taxation Directive to further stimulate demand for low-carbon fuels**.

3. Ensuring Fair Global Competition

The European automotive industry is facing **increasing international competition**, which has intensified in recent years following successive crises (**COVID-19, energy shortages, semiconductor disruptions, and geopolitical tensions**).

Massive **state support mechanisms** implemented by the **United States and China**, combined with **industrial overcapacities**, have further widened Europe's competitiveness gap, leading to an **unbalanced international playing field**.

As a result, **European production is declining**—notably in France—while **imports, particularly from China, are rising**. This issue extends beyond **vehicle manufacturers** and affects the entire **automotive supply chain**, which contributes **75% of a vehicle's value**. In Europe, the automotive sector accounts for **8% of GDP and 13 million jobs**, with a significant number of **SMEs and mid-sized companies** that are **highly localized and particularly vulnerable** due to their limited financial ability to diversify or expand globally.

As a consequence, there is a real risk that key technologies, components and software will in the future be imported from abroad, rather than produced in Europe.

Immediate measures to protect the European industrial ecosystem.

While **mid-term structural improvements for European competitiveness** (cf. Ch. 1) are essential, **immediate action** is needed to safeguard this **critical industrial network**, which is fundamental:

- **To maintain and develop Europe's industrial sovereignty and protect jobs**.
- **To reduce dependency and mitigate supply chain risks**.

It is therefore **crucial to rapidly define a European strategy**, assessing all possible measures to favor **significant local value-added production**.

One of the measures should be **to condition financial incentives in Europe** on a **substantial local content requirement**, ensuring alignment between **environmental (eco-conditionality), industrial, and social objectives** while maintaining an **open and competitive market**.

Balancing protection with open trade and diversification

As stated by ACEA and CLEPA this strategy must nevertheless safeguard long established, well-functioning supply chains, **preserve an open and competitive international trade environment** and foster new partnerships and trade agreements to **diversify supply sources**, particularly for **critical raw materials**.